

DCMC-OG

August 7, 1998

MEMORANDUM FOR DIRECTOR, DEFENSE REFORM INITIATIVE OFFICE

SUBJECT: Engineering Support Activities (ESA) Costs

During our status briefing to you on Management Reform Memorandum #10 on May 15, 1998, you asked the Process Action Team (PAT) to address how the Services' ESA fees were structured for their various services to the Defense Supply Centers (DSC).

The conclusion is that the Military Services and DLA developed and agreed to the current Engineering Support standard fees using historical costing data. The Military Services and DLA are reviewing the current cost category and are negotiating new rates for FY 99.

Should you have any questions or concerns regarding information contained in the attached report, please contact Ms. Ella E. Studer, MRM #10 PAT Leader, at (703) 767-3398.

//s//

TIMOTHY P. MALISHENKO
Major General, USAF
Commander

Attachment

Engineering Support Services

Purpose: This tasking is an outcome of the Management Reform Memorandum #10 initiative status briefing to Mr. Houley, Director, Acquisition Reform Office. Mr. Houley asked how the Services' Engineering Support Activities (ESA) fees were structured for their various services to the Defense Supply Centers (DSC).

Background:

- In early FY94 the Office of the Secretary of Defense (OSD) formed an Executive Steering Group (ESG) to address the Engineering Support (ES) process. The Military Services and the Defense Logistics Agency (DLA) were key members of the ESG.
- As part of the ESG, two working groups were formed. Working Group #1 was created to address the ES process and Working Group #2 was tasked to address the funding of ES work (OSD Comptroller was the chairman of Working Group #2). The Working Groups were composed of members from each of the Military Services and DLA.
- As a result of the Working Group efforts, ES categories and standard fees were developed and agreed upon by the Military Services and DLA. The standard fees were based on the average cost of performing a specific category of ES work across the Military Services. A challenge for the Military Services was to figure out how to make an average standard cost work at their ESA.
- PBD 425 formalized the established ES categories and standard fees developed by Working Group #2 and transferred funding of \$12.4 million to the DLA Capital Working Fund to support the ES process.
- As part of the ES process, the DSCs work through the Military Services' ES focal points of which there are five for the Air Force, two for the Navy, one for the Marine Corps, and six for the Army. There are a multitude of ESAs to support the Military Services' ES focal points of which there are approximately 30-40 for each Service, with the exception of the Marine Corps which has 10.

Discussion:

- ES categories and standard fees have remained unchanged since first established in FY95.
- Recently Military Services have complained about rates being too low to cover actual costs of performing ES work.
- Proposed new standard rates and additional ES categories have been developed jointly by the Military Services and DLA. Updated rates take into account inflation and actual costs incurred in specific categories. Additional ES categories were formed to ensure accurate and reasonable rates were being charged for specific types of ES work.

Conclusion: The Military Services and DLA developed and agreed to the current ES standard fees. In discussion with the DoD Inspector General's office, they have never reviewed ESA rates. However, they have reviewed several other Capital Working Fund accounts and found that there was always a basis to the fees charged. The attached shows the current ES standard fees and the proposed new rates for FY 99.

PROPOSED RATES FY 99
ENGINEERING SUPPORT

TYPE	CATEGORY	STANDARD CHARGE	OLD RATES	% INCREASE
1	Alternate Offers	\$1,200	\$900	33
2	ECPs, Waivers & Deviations	\$750	\$600	25
3	TDP Development/ Validation	\$900	\$750	20
4	Reverse Engineering (initial phase)	\$400	New Category	NA
5	Reverse Engineering (second phase)	\$1,200	\$900	33
6	Contract Deliverables	\$800	\$750	7
7	Miscellaneous Technical Requirement (s)	\$900	\$900	0
8	Critical Application Decision	\$150	\$100	50
9	Surplus Offers	\$500	New Category	NA
10	Extended Engineering	As Negotiated	NA	NA